

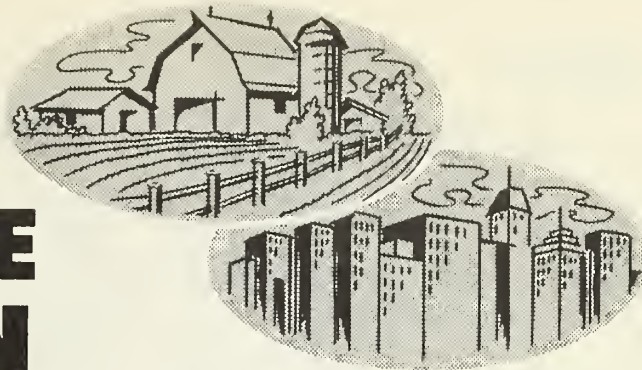
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# DEMAND AND PRICE SITUATION



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AUGUST 1968

## IN THIS ISSUE

AGRICULTURAL SITUATION

GENERAL ECONOMIC SITUATION

FOREIGN TRADE

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OUTREACH DIVISION

## Selected measures of economic activity

Item	Unit	1967				1968				Year 1966	Year 1967
		I	II	III	IV	I	II	I/			
Gross national product	Bil. dol.	772.2	780.2	795.3	811.0	831.2	851.6			747.6	789.7
Disposable personal income	Bil. dol.	534.2	541.5	550.0	559.6	574.4	586.3			511.6	546.3
Personal consumption expenditures	Bil. dol.	480.9	490.3	495.5	502.2	519.4	527.6			465.5	492.2
Food spending (excluding alcoholic beverages)	Bil. dol.	94.4	94.4	94.7	96.2	98.6	101.0			92.7	94.9
Implicit price deflator for GNP	1958=100	116.0	116.6	117.7	118.9	120.0	121.2			113.8	117.3
Unemployment rate 2/	Percent	3.7	3.8	3.9	3.9	3.6	3.6			3.8	3.8
Cash receipts from farm marketings 1/	Bil. dol.	42.5	43.0	43.0	42.7	43.2	44.0			43.2	42.8
Farm production expenses 1/	Bil. dol.	38.4	38.9	35.0	35.0	35.4	35.9			33.4	34.8
Realized net farm income 1/	Bil. dol.	14.5	14.4	14.2	13.9	14.4	14.8			16.2	14.2
Agricultural exports 3/	Bil. dol.	1.6	1.6	1.4	1.8	1.6	1.5			6.9	6.4
Agricultural imports 3/	Bil. dol.	1.2	1.1	1.1	1.1	1.2	1.3			4.5	4.5
Prices received by farmers 4/	1910-14=100	253	251	255	252	256	259			267	253
Livestock	do.	277	275	284	273	280	283			292	277
Crops	do.	223	224	220	228	229	232			237	224
Prices paid by farmers 4/ 5/	do.	339	341	343	344	350	354			334	342
Wholesale price index, all commodities 4/	1957-59=100	106.0	105.8	106.3	106.4	107.8	108.5			105.9	106.1
Consumer price index, all items 4/	do.	114.8	115.6	116.8	117.8	119.0	120.4			113.1	116.3
All food	do.	114.4	114.2	116.2	115.8	117.4	118.7			114.2	115.2

1/ Preliminary.

2/ Unemployment as a percent of the civilian labor force.

3/ Actual values, not seasonally adjusted annual rates.

4/ Not seasonally adjusted.

5/ Including interest, taxes, and wage rates.

Departments of Agriculture, Commerce, and Labor.



# THE DEMAND AND PRICE SITUATION

Approved by the Outlook and Situation Board, August 16, 1968

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## SUMMARY \*

Slightly higher average prices, a larger volume of marketings, and an increase of around 10% in Government payments to farmers indicate that realized net incomes of farm operators for 1968 will increase a little from 1967, despite the continuing uptrend in production expenses. Although Government payments to farmers in January-May totaled below a year earlier, they are estimated to be up about \$300 million for the year. Larger feed grain acreage diversion is the principal reason for the increase.

Through the first half of this year, sales of farm products returned farmers about 2% more than in the same period of 1967. Prices averaged a little higher, while the volume of marketings was about the same. Gross farm income was at an annual rate of \$50 billion.

Reduced supplies of fruit, cotton, and fresh vegetables strengthened average prices for crops, despite weakness in grains and soybeans as the result of prospects for continued heavy supplies. Federal actions raising dairy prices and

strong consumer demand contributed to improved livestock product prices.

In the second half, prices are expected to hold near the 1967 level. The August crop report indicates that heavy supplies will continue to be a major price factor for grains and soybeans over the next several months.

However, the loan program will limit the decline in prices, and a higher level of payments to producers will maintain the total value of 1968 feed grain crops plus payments at or above those for 1967 crops. Wheat and rice crops are expected to be records, while output of the four feed grains will be around last season's record tonnage. Oilseed production will be up sharply, with a record soybean crop and large increases in prospect for cottonseed and flaxseed.

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\*The Summary of this report, along with a table on selected measures of economic activity, was released on August 16, 1968.

Growth in demand in coming months will likely be slower than in the first half. This will reflect Government actions taken to moderate the expansion in demand and reduce pressures on prices. These include the tax surcharge on corporate and personal income passed by Congress in June, and scheduled cuts in proposed Government expenditures.

Some slackening in demand growth was indicated in the second quarter. Inventories increased rapidly, partly due to a slower expansion in consumer expenditures as the savings rate rose, and the building up of supplies by manufacturers as a hedge against a possible steel strike. Business fixed investment also was cut back slightly in the second quarter.

A slower rise in consumption and investment expenditures may be accompanied by slower growth in output and some gain in unemployment from low current levels.

Food expenditures in the second half of 1968 also may increase less rapidly than in the first half. In the second quarter, retail food expenditures were 7% above a year earlier.

#### Looking at Major Farm Commodities...

...Beef production is running a little above year-earlier levels. But producer prices are higher. Fed cattle marketings are expected to continue to exceed year-earlier levels in coming months. Prices likely will continue above 1967 for the next few months though gains may narrow.

...Pork production is larger so far this year. Prices are lower but are holding up well.

...Egg output is dropping below a year ago. Prices are picking up, and are expected to average well above the last half of 1967.

...Fewer turkeys are being produced in 1968. As storage holdings are brought to more manageable levels, prices will improve.

...Broiler output is running above a year earlier. Prices are firm.

...Milk production is down so far this year. Prices are higher due in part to increased supports and Federal milk marketing order actions.

...Feed grain crop in 1968 is down a shade from last year. Larger carryover into 1968/69 is expected. Some pickup in use is likely.

...Wheat supplies are large for the 1968/69 marketing year. Both the carryover and the 1968 crop are larger than a year ago.

...Rice output in 1968 is expected to be almost a fourth larger. Acreage is up sharply as farmers took advantage of the 20% increase in acreage allotment. Yields are also higher.

...Cotton production in 1968 is expected to be 47% larger. Acreage and yields are sharply above last year's low levels.

...Fresh and processed vegetables are in larger supply this summer.

...The 1968 deciduous fruit crop is expected to exceed last year's output.

...Tobacco output is estimated smaller in 1968. Both acreage and prospective yields are down.

...More sugar is in prospect in 1968. The beet crop may be up nearly 30%.

...Soybean supplies in 1968/69 will be record large. The 1968 crop and carryover stocks are setting new highs.

## AGRICULTURAL SITUATION

Prices received by farmers and farm incomes have been fairly steady and above a year earlier in recent months. Despite large total supplies, crop prices have averaged higher this year primarily because of reduced fruit, cotton, and fresh vegetable supplies. Federal actions have contributed to raising dairy prices and strong consumer demand for red meats have contributed to improved livestock prices. But, heavy supplies of grain and soybeans continue to depress

Prices received and paid by farmers,  
second quarters 1967 and 1968

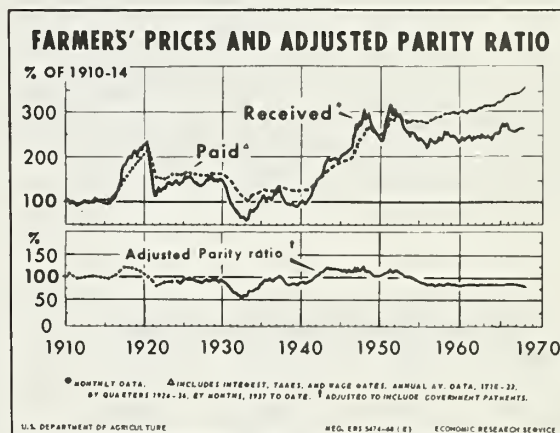
(1910-14=100)			
Index	2nd qtr. 1967	2nd qtr. 1968	Per- centage change 1968/67
<u>Prices received</u>			
All farm products.....	251	259	3
Livestock & products..	275	283	3
Meat animals.....	342	350	2
Dairy.....	289	303	5
Poultry & eggs.....	126	128	2
Wool.....	228	230	1
All crops.....	224	232	4
Food grains.....	184	163	-11
Feed grains & hay..	183	164	-10
Cotton.....	171	174	2
Tobacco.....	559	563	1
Oil-bearing crops..	285	270	-5
Fruit.....	198	301	52
Vegetables.....	307	330	7
Potatoes, sweet- potatoes, & dry edible beans.....	189	233	23
<u>Prices paid</u>			
Commodities & serv- ices 1/.....	341	354	4
Production items 1/.....	357	368	3

1/ Including interest, taxes, and wage rates.

prices. However, the loan program will limit the decline in prices and a higher level of payments to producers will maintain the total value of 1968 feed grain crops plus payments at or above those for 1967 crops.

Prices paid by farmers are moving up slightly faster than prices received by farmers.

Domestic demand has been strong this year, exports of U.S. farm products continue to run below a year earlier. The value of U.S. agricultural exports totaled 7% below a year earlier during fiscal year 1967/68. Most of the overall drop in value was due to lower prices for many agricultural products. But the volume of exports was down too.



Livestock product supplies are running large again this year. But, demand for red meat has been unusually strong as well. Despite increased supplies of beef, pork, and turkey, livestock producer prices in the second quarter 1968 were 3% above those of a year earlier.

During the remainder of the year, red meat and broiler supplies are ex-

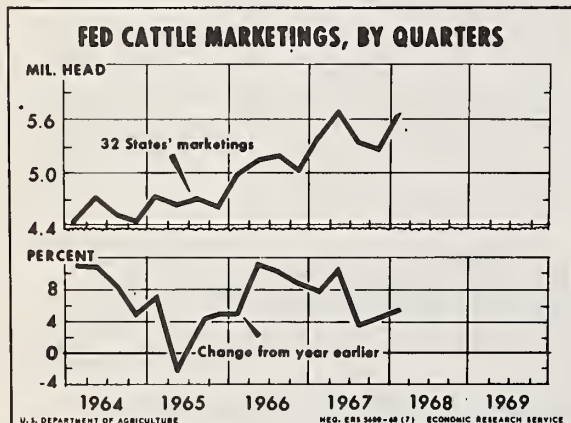


pected to remain large, and consumer demand may advance more slowly. For the second half, livestock prices likely will average around those of a year earlier.

Beef production was about the same as a year earlier during the April-June quarter. And a growing population plus a strong consumer demand for beef pushed farm prices up nearly 6%.

Increased supplies of fed beef appear likely for the rest of 1968. Feeders report plans to market around 5% more fed beef during July-September than they did last year. If feeders market cattle at desirable weights late this summer, prices are expected to average near early summer levels. Choice steer prices in July averaged around \$27.60.

About 8% more cattle were on feed in July in weight groups that supply about 60% of fed cattle marketings in the fourth quarter. If these large supplies materialize, fed cattle prices in October-December are expected to weaken from July levels. Moreover, cattle weights have been averaging above a year earlier since midyear because of large supplies of low cost feed. If this trend persists, prices in the fall may be under additional pressure.



Among the red meats, pork production has shown the largest gains so

far in 1968 over a year earlier. During the second quarter, pork output totaled nearly a tenth above a year earlier. However, prices received by farmers dropped only 6% below those in the same period last year.

Looking ahead, pork will probably continue at a little above a year earlier most of the summer. But, in June there were 3% fewer pigs on farms that are expected to reach market weights this fall.

During the fall, hog prices will weaken from summer highs as slaughter rises seasonally. However, if marketings are smaller than last fall, prices will probably average moderately above a year earlier in October-December. Hog producers plan to farrow 2% more sows during June-November. Pigs born during this period would begin to reach market weights by early 1969. And, if producers carry out their plans and hog/corn price ratios continue favorable, pork production in the first half of next year will probably exceed year-earlier levels.

Sheep and lamb slaughter continued to decline this spring. And, the 4% smaller spring lamb crop indicates slaughter in the rest of the year will lag year-earlier levels. Because of smaller supplies, prices received by farmers averaged 10% above year-earlier levels in the second quarter. Prices for the rest of the year are expected to be higher than in 1967.

Poultry prospects are more promising for the last half of 1968. Eggs were laid in near-record numbers in early 1968. However, during the April-June quarter, production dropped below that of a year earlier. Fewer pullets have been placed in laying flocks this year. This trend is expected to hold egg output below the 1967 level the rest of this year. Egg prices began to pick up in June, and for the rest of 1968 they will average well above the depressed levels of 1967.

Broiler production was below year-earlier levels during the second quarter.



However, higher broiler/feed price ratios and increased hatchings point to some expansion over a year earlier in broiler production the rest of the year. Unless production expands sharply, broiler prices the rest of the year are expected to hold above those in late 1967. Less turkey slaughter in coming months will help strengthen broiler prices.

Fewer turkeys are being produced this year. The turkey crop is expected to be about 18% smaller in 1968. In early 1968, however, turkey consumption outpaced year-earlier levels because of low prices and expanding demand. But storage holdings are still large and prices under pressures. Prices are expected to perk up as fewer turkeys than a year earlier reach market in the heavy marketing season. USDA purchases of cold storage turkey will also help bolster prices.

Less milk has been produced so far in 1968. Production totaled around 2% below a year earlier in the second quarter and producers' prices averaged 5% higher, due in part to increased supports for manufacturing milk, and Federal milk marketing order actions.

As the year progresses, milk output is expected to respond to record-high milk/feed price ratios and narrow the gap in production from year-earlier levels. Prices later this year are expected to continue above a year earlier.

Another record large crop output is estimated for 1968, according to the August crop report. Crop production this year is expected to total 3% above last year's record output. Crop prices have averaged higher so far this year, primarily due to smaller supplies of fresh vegetables, cotton, and fruit. However, prices are adjusting to prospects for

Table 1.--Production and prices received by farmers for major livestock and livestock products, 1965, 1966, 1967, and second quarters for 1967 and 1968

Item	Unit	Annual			Second quarter	
		1965	1966	1967 1/	1967 1/	1968 1/
<u>Production 2/</u>						
Cattle and calves	Mil. lb.	19,744	20,635	21,004	3/5,282	3/5,244
Hogs	Mil. lb.	11,140	11,337	12,581	3/2,869	3/3,122
Sheep and lambs	Mil. lb.	651	650	646	3/147	3/143
Chickens	Mil. lb.	6,649	7,309	7,537)		
Turkeys	Mil. lb.	1,521	1,685	1,881)	3/2,129	3/1,997
Eggs	Mil. lb.	8,594	8,698	9,180	2,344	2,327
Milk	Mil. lb.	124,173	119,892	119,294	33,299	32,698
<u>Prices received by farmers</u>						
Cattle	Dol./cwt.	19.90	22.20	22.30	22.40	23.70
Hogs	Dol./cwt.	20.60	22.80	18.90	19.90	18.70
Lambs	Dol./cwt.	22.80	23.40	22.10	23.30	25.50
Chickens	Ct./lb.	14.4	14.7	12.7	13.0	13.9
Turkeys	Ct./lb.	22.2	23.1	19.5	19.5	19.1
Eggs	Ct./doz.	33.7	39.1	31.2	28.7	28.6
All milk (wholesale)	Dol./cwt.	4.23	4.81	5.02	4.74	4.97

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only.

continued large supplies of grains and soybeans, and larger crops of fruit, cotton, and vegetables. Even so, for the year crop prices are expected to at least match those of a year ago.

About 2% fewer acres were planted to crops for harvest in 1968. But acres planted to rice, cotton, flaxseed, and sugar beets were up sharply, and soybean acreage was moderately larger. Feed grain, tobacco, potato, and wheat acreages all were lower.

Generally favorable weather this summer indicates average yields high enough to more than offset smaller acreage.

U.S. crop production: Index  
numbers of production of  
crops, 1967 and 1968

(1957-59=100)

Item	1967 1/	1968 2/	Per- centage change 1968/67
All crops 3/.....	117	121	3
Feed grains.....	124	123	-1
Hay and forage.....	115	110	-4
Food grains ...	134	145	8
Vegetables.....	112	115	3
Sugar crops ...	136	161	18
Cotton .....	60	89	47
Tobacco .....	116	105	-9
Oil crops .....	171	185	8

1/ Preliminary.

2/ Indicated.

3/ Includes other products not included in the separate groups shown.

The large 1968 cotton crop boosts total crop output this year. Cotton production is expected to be 47% larger than last year's very small crop, according to the August crop report. This sharp increase is due to expanded acreage and a

substantially higher national yield. Larger planted acreage this year reflects less diversion under the 1968/69 upland cotton program, lower voluntary diversion payments, higher cotton prices last year, and more normal planting conditions in some areas. Improved yields are resulting from better growing conditions in some areas and a pickup in skip-row plantings.

Cotton stocks were worked down again last year because of the small 1967 crop and above-average use (table 2). Because of smaller supplies, 1967/68 cotton prices averaged well above year-earlier levels.\*

Feed grain production in 1968 is currently forecast less than 1% below last year's record output (table 2). Corn production is estimated down 4% from last year, but oat and barley output is estimated up 20% and 15%, respectively. The 1968 sorghum grain crop is expected to be near that of a year earlier. The crop together with an estimated 49 million ton carryover would give a 5% increase in feed grain supply for 1968/69 (table 2). Domestic demand has been sluggish and consumption in 1967/68 probably will be little changed from last year. However, for the coming feeding year, domestic use may pick up due to slightly larger livestock numbers and favorable livestock/feed price ratios.

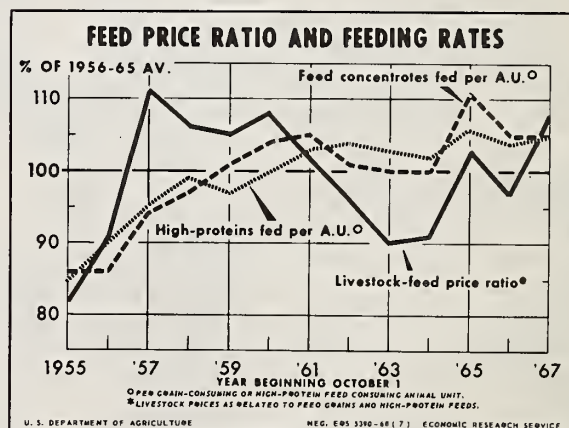


Table 2 --Supply-distribution and season average prices of selected major crops, 1965/66, 1966/67, 1967/68, and 1968/69

Item	Unit	Beginning stocks	Imports	Production	Total supply	Domestic use	Exports	Total use	Ending stocks	Season average price 1/
<b>Feed grains</b>										
1965/66	mil. tons	54.8	0.3	157.4	212.5	141.3	29.1	170.4	42.1	2/1.16
1966/67	mil. tons	42.1	.3	157.6	200.0	140.9	22.0	162.9	37.1	2/1.24
1967/68 p.	mil. tons	37.1	.3	175.1	212.5	140.9	22.6	163.5	49.0	2/1.05
1968/69 e.	mil. tons	49.0	.3	174.4	223.7	---	---	---	---	---
<b>Wheat</b>										
1965/66	mil. bu.	817.3	.9	1,315.6	2,133.8	731.2	867.4	1,598.6	535.2	1.35
1966/67	mil. bu.	535.2	1.7	1,311.7	1,848.6	681.2	742.4	1,423.6	425.0	1.63
1967/68 p.	mil. bu.	425.0	1.0	1,524.3	1,950.3	651.1	762.0	1,413.1	537.2	1.39
1968/69 e.	mil. bu.	537.2	1.0	1,606.0	2,144.0	---	---	---	---	---
<b>Rice</b>										
1965/66	mil. cwt.	7.7	.7	76.3	84.7	3/33.0	43.3	76.4	8.2	4.93
1966/67 p.	mil. cwt.	8.2	4/4/	85.1	93.3	3/32.7	52.0	84.7	8.5	4.95
1967/68 e.	mil. cwt.	8.5	4/4/	89.6	98.1	32.9	---	---	---	4.92
1968/69 e.	mil. cwt.	---	4/4/	111.6	---	---	---	---	---	---
<b>Soybeans</b>										
1965/66	mil. bu.	29.7	0	845.6	875.3	589.1	250.6	839.7	35.6	2.54
1966/67	mil. bu.	35.6	0	928.5	964.1	612.4	261.6	874.0	90.1	2.75
1967/68 p.	mil. bu.	90.1	0	972.7	1,062.8	632.8	270.0	902.8	160.0	2.49
1968/69 e.	mil. bu.	160.0	0	1,064.0	1,224.0	---	---	---	---	---
<b>Cotton 2/</b>										
1965/66	mil. bales	14.3	.1	14.8	29.3	9.5	2.9	12.4	16.9	28.14
1966/67	mil. bales	16.9	.1	9.6	26.8	9.5	4.7	14.2	12.5	20.84
1967/68 p.	mil. bales	12.5	.1	7.5	20.1	9.1	4.2	13.4	6.8	25.60
1968/69 e.	mil. bales	6.8	---	11.0	---	---	---	---	---	---

1/ Dollars per bushel, except cotton which is cents per pound. 2/ Price for corn. 3/ Includes the following statistical discrepancies: 1965/66, 2.2 and 1966/67, 1.2 mil. cwt. 4/ Less than 50,000 cwt. 5/ Total cotton supply includes city crop and production prior to August 1 (end of season).

p. Preliminary e. Estimated.

Details may not add to totals due to rounding.



Prices received by farmers for their 1967 crop feed grains are running 13% below those last year, which were the highest in a decade. Prices have been pressured by the large "free" supplies throughout the year and more recently by the excellent 1968 crop prospects.

Wheat supplies are large again in 1968. Although harvested acreage is down this year, yields are more than a tenth higher--a record. Total wheat production is estimated about 5% larger this season (table 2). However, the total wheat supply is up a tenth due to increased carryover. The wheat carryover rose this year for the first time since 1961.

Disappearance of wheat in 1968/69 is expected to be slightly larger than in the previous season. Domestic use may pick up slightly due to increased wheat feeding. Large supplies and low prices may result in wheat feeding doubling from last year's small use, even though feed grain supplies are large. Another 750 million bushel export target has been announced for 1968/69. But this goal may be difficult to attain. Supplies are large in most leading export countries and several major importing countries.

Wheat prices are currently near loan rates at most markets, and producers are making heavy use of the loan program. Increased program participation this season is expected to lend support to prices. For the 1967/68 marketing year, wheat prices are expected to average between last season's \$1.39 per bushel and the national average loan rate of \$1.25.

The 1968 soybean crop was estimated 9% larger than last year's on August 1, 1968. Both higher expected yields and larger acreage contributed to the increase. Table 2 shows the large 1968 crop and increased carryover are resulting in a record soybean supply in 1968/69--15% larger than last season's. Prices rose from November 1967 to May 1968. Since then, they have declined

slightly to \$2.52 per bushel in July. With large crop supplies, prices for 1968 crop will likely average near the \$2.50 per bushel national average support rate.

Stocks of feed grains, soybeans, and wheat on July 1 were all materially larger than a year ago.

Grain and position	July 1, 1967	July 1, 1968	Per-centage change 1968/67
	---	---	Pct.
TOTAL FEED			
GRAINS			
On farms <u>1/</u>	44	53	20
Off farms <u>2/</u>	21	25	19
Total*	65	78	19
	---	---	Pct.
WHEAT			
On farms <u>1/</u>	145	228	57
Off farms <u>2/</u>	280	309	10
Total*	425	537	26
	---	---	Pct.
SOYBEANS			
On farms <u>1/</u>	85	120	41
Off farms <u>2/</u>	114	164	44
Total*	199	285	43

most major fresh items except cabbage supplies, which will probably be down moderately.

Fresh vegetable harvests were active in late July and are expected to continue seasonally heavy through summer. Prices will probably average near levels of a year earlier.

Tonnage of major processing vegetable crops is expected to be up substantially above last year, and a record canned pack is in prospect. Supplies of all canned vegetables are expected to continue in heavy supply during the 1968/69 season. Frozen supplies are also likely to be record large. Processed vegetable prices are expected to average lower this season.

Late summer potato production is expected to run moderately above last year's crop. Prices were strong in mid-July, but quotes at some points weakened in late July and prices are expected to be seasonally low in coming weeks. Later in the year, however, supplies are likely to be below a year earlier. The fall crop is estimated to be down 6%.

The 1968 fruit crop is expected to exceed last year's output. Fruit production prospects are much better than a year ago. Increases are expected for both the noncitrus and citrus crops. Non-citrus production is currently estimated about 15% larger than 1967's low output. Brighter crop prospects in California are primarily responsible. In mid-July, prospects for the 1968/69 citrus crop were good. However, until the new harvest begins in November, fresh and processed supplies will remain tight and prices firm.

Tobacco output in 1968 is expected to be about 7% smaller than last year. Acreage is down about 6% and yields are estimated slightly lower than last year. Flue-cured output is estimated 14% less than that of last year, while burley production is expected to exceed last year's output by around 6%. Production of Maryland tobacco is indicated down about 5%.

Larger sugar crops are in prospect for 1968. The increase reflects a nearly 30% larger sugar beet crop. Sugar beet acreage picked up sharply. Sugar cane output, on the other hand, is expected to total near 1967 levels.

Cash receipts totaled slightly above a year earlier during the first half of 1968. Farmers earned 2% more from the sale of farm products than they did in this same period last year. Most of the improvement came from slightly higher prices for farm products. The volume of marketings was little changed from that of last year.

Livestock and livestock products contributed most to the first half increase in cash receipts. Livestock prices were up 2% from a year earlier, and the volume of sales was also slightly larger. Meat animal and dairy product sales accounted for most of the increase in receipts.

Receipts from crop marketings showed little change in the first half from a year earlier. Prices averaged 3% higher, but the volume of marketings lagged the year-earlier pace. Grain and soybean marketings have been larger this year, but reduced market supplies of vegetables, tobacco, cotton, and fruit have been more than offsetting.

Market supplies of farm products are expected to continue large during the rest of the year. Although demand expansion may slow somewhat, farm prices in the last half of 1968 may average around those of a year earlier. As a result, cash receipts for all of 1968 are expected to better year-earlier totals.

Direct Government payments totaled below a year earlier during January-May 1968. However, for the year, payments are estimated to be about \$300 million higher. Higher direct payments this year are due to increased feed grain diversion.

Although gross farm income was slightly larger in the first half, production expenses have continued their



persistent uptrend. As a result, the gain in realized net income was around 2 to 3% above a year earlier, and a small gain is indicated for the year as a whole.

Sharply advancing prices for most production and capital items continue to restrict farmers' incomes in 1968. During April-June, farmers paid higher prices for most purchased items compared with a year earlier. Showing sharpest price increases were building materials, feeder livestock, motor vehicles, farm machinery, and seed. Prices declined for purchased feed and fertilizer.

Higher farm wage rates continued in the second quarter. On July 1, the composite farm wage rate stood at \$1.18 per hour, up 7% from a year earlier. However, fewer hired workers on farms were about offsetting on the total wage bill.

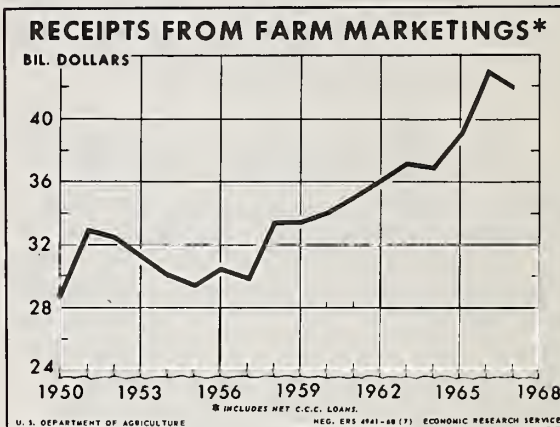
Farm machinery shipments (excluding tractors) averaged 5 $\frac{1}{2}$ % lower in value during January-May 1968 compared with a year earlier. Apparently, many farmers are shifting to considerably larger harvesting equipment. For example, sales of large self-propelled combines (\$11,000 and over) were up two-thirds from a year ago during January-May, according to the Farm and Industrial Equipment Institute. Equipment selling for less showed declines from a year earlier.

The value of wheel tractor shipments through May totaled 3% below that of a year earlier. Higher tractor prices and larger horsepower units helped offset a 13% smaller volume of shipments.

Farm real estate values climbed higher in early 1968. The value of farmland and buildings totaled 6% above a year earlier on March 1, 1968. Land and buildings averaged \$178 per acre on this date. Although interest rates have been high, and farm incomes in 1967 were down from a year earlier, the value of farm real estate trended upward about in line with increases in recent years. The largest gains in value were noted in the Delta States and Southern Plains; smaller advances occurred in the Lake States and Corn Belt.

Because of tight credit conditions, seller financing, primarily instalment contracts, has expanded recently.

Farmers purchased the major portion of farm real estate transferred, primarily for farm enlargement. Last year, about 2 $\frac{1}{2}$ % of total farm acreage changed hands.





## GENERAL ECONOMIC SITUATION

The U.S. economy maintained its strong pace through the second quarter as total expenditures and personal incomes rose substantially. Although consumer spending slowed from its first quarter record advance and inventories rose considerably, real output and employment continued at high levels. Production, strengthened by manufacture of automobiles and fabricated metal products, rose 1% for the quarter and averaged about 6% above a year ago.<sup>1/</sup> Civilian employment reached the 76 million mark. The workweek in May and June for manufacturing production workers reached the highest level since September 1967. June, however, saw a rise in the unemployment rate from 3.5% to 3.8% but this was mostly the result of the entrance of teenagers and young adults into the labor force.

The outlook for major components of demand appears less strong in the coming months. Legislation passed by Congress in June reduces proposed Federal Government expenditures and increases income taxes. This action is designed to slow price increases by moderating demand expansion. Personal consumption expenditures already moderating in the second quarter are expected to advance less rapidly due to a slower advance in disposable personal incomes. Gross private investment may level off if sales slow and after-tax corporate profits decline. The high inventory accumulation which took place in the second quarter

<sup>1/</sup> All quarterly data are seasonally adjusted annual rates unless otherwise noted.

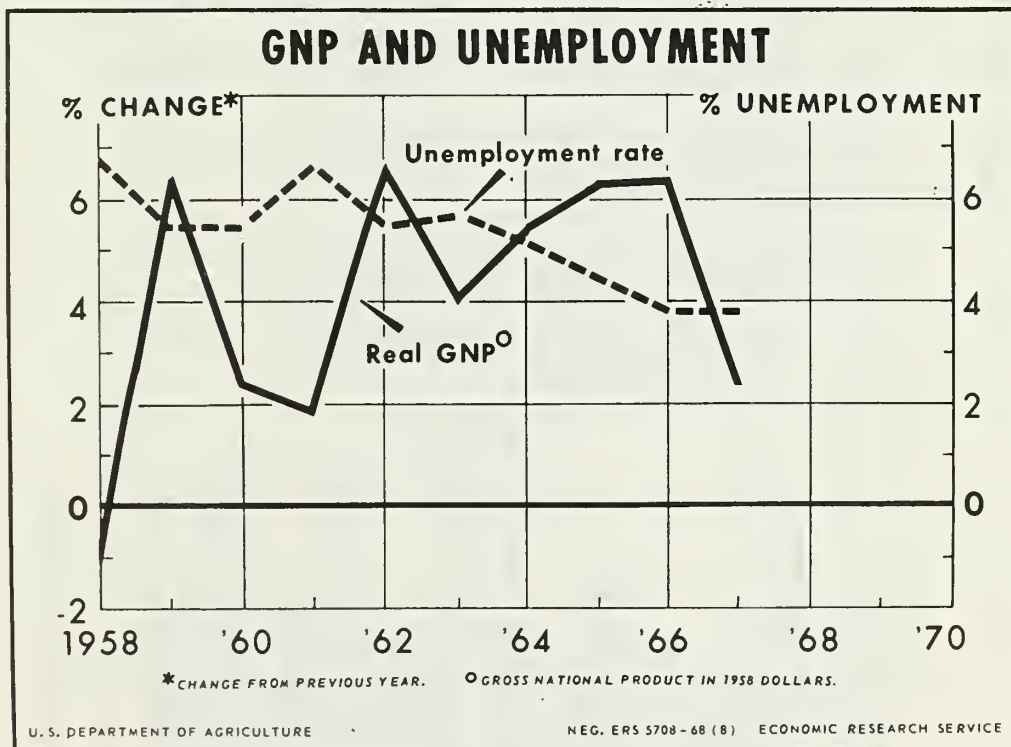


Table 3.--Other economic factors affecting agriculture (seasonally adjusted annual rates)

Item	Unit	1966				1967				1968			
		Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
		1967	1966	1966	1966	1967	1966	1966	1966	1967	1966	1966	1966
Gross national product	Bil. dol.	789.7	747.6	753.3	768.2	772.2	780.2	795.3	811.0	831.2	851.6		
Gross national product (1958 prices)	Bil. dol.	673.1	657.1	659.5	667.1	665.7	669.2	675.6	681.8	692.7	702.3		
Disposable personal income	Bil. dol.	546.3	511.6	515.4	525.4	534.2	541.5	550.0	559.6	574.4	586.3		
Personal consumption expenditures	Bil. dol.	492.2	465.5	469.3	473.7	480.9	490.3	495.5	502.2	519.4	527.6		
Durable	Bil. dol.	72.6	70.5	71.0	71.1	69.8	73.4	73.1	74.2	79.0	80.9		
Nondurable	Bil. dol.	215.8	206.7	208.3	209.3	212.9	215.3	216.4	226.5	228.2			
Services	Bil. dol.	203.8	188.3	190.0	193.3	198.2	201.6	205.9	209.6	213.9	218.4		
Personal savings	Bil. dol.	40.2	32.9	32.9	38.1	39.7	37.0	40.5	43.4	40.8	44.4		
Net Government receipts	Bil. dol.	164.6	157.9	161.0	161.6	160.2	161.5	165.6	171.0	180.4	---		
Government purchases	Bil. dol.	178.4	156.2	159.5	164.3	173.1	177.3	179.6	183.5	190.5	195.6		
Federal	Bil. dol.	90.6	77.4	79.9	81.5	87.4	90.0	91.3	93.5	97.1	100.0		
State and local	Bil. dol.	87.8	78.8	79.7	82.7	85.8	87.2	88.4	90.0	93.4	95.6		
Deficit or surplus (on income and product accounts)	Bil. dol.	-13.8	1.7	1.2	-2.6	-12.9	-15.9	-14.0	-12.5	-10.3	---		
Gross private domestic investment	Bil. dol.	114.3	120.8	119.9	125.7	113.0	107.6	114.7	121.8	119.7	127.4		
Fixed investment	Bil. dol.	108.2	106.1	107.0	105.9	104.6	105.4	109.3	113.5	117.6	117.4		
Residential	Bil. dol.	24.6	24.8	24.4	21.7	21.1	22.7	26.0	28.5	29.1	29.5		
Nonresidential	Bil. dol.	83.6	81.3	82.6	84.2	83.5	82.7	83.3	85.0	88.6	87.9		
Change in business inventories	Bil. dol.	6.1	14.7	12.8	19.8	8.4	2.3	5.3	8.3	2.1	10.0		
Gross retained earnings	Bil. dol.	93.1	91.6	91.9	95.3	91.3	91.8	93.5	95.9	92.7	---		
Excess of investment	Bil. dol.	-21.1	-29.2	-28.0	-30.4	-21.7	-15.8	-21.2	-25.9	-27.0	---		
Net exports of goods and services	Bil. dol.	4.8	5.1	4.5	4.5	5.2	5.1	5.4	3.4	1.5	.9		
Per capita disposable personal income (1958 prices)	Dol.	2,401	2,332	2,340	2,359	2,379	2,395	2,404	2,418	2,454	2,475		
Total civilian employment 2/	Mil.	74.4	72.9	73.1	73.6	74.0	73.9	74.6	75.1	75.6	75.8		

1/ Preliminary. 2/ U.S. Department of Labor.

U.S. Department of Commerce.

may take time for industry to absorb. Steel production, for example, will be reduced. A low capacity utilization rate in manufacturing industries, currently running about 84%, will reduce incentives for new plant and equipment. Slower demand expansion may cause some rise in the unemployment rate as the labor force and productivity continue to grow.

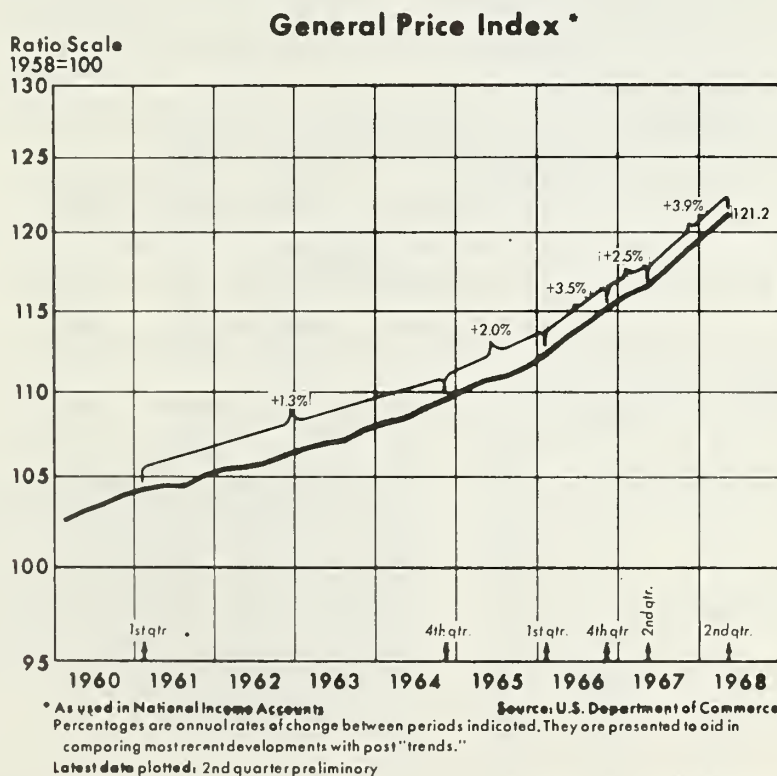
A slowdown in general demand may result in an easing of monetary markets and an improvement in prospects for residential construction. Moreover, a cooling of inflationary pressures should improve our foreign trade balance and strengthen the international position of the dollar.

The Nation's gross national product (GNP) rose \$20.4 billion to \$851.6 billion according to preliminary data. This increase, about the size of the record first quarter advance, represented the fourth consecutive substantial quarterly gain following a slowdown in the

first half of 1967. GNP averaged 9% higher than in the April-June period a year ago.

Price increases accounted for nearly half of the GNP rise in the second quarter. The 2½% overall GNP increase from the first quarter was composed of a 1% quarterly price advance and 1½% quarterly gain in real output (GNP measured in constant 1958 prices). Prices, which have been rising substantially since 1965, rose almost twice as fast during the second quarter this year as over the same period in 1967. The consumer price index from May to June climbed 0.5%, the largest monthly advance since a similar rise in February 1966. Most of the consumer price second quarter rise was in nondurables and services, including mortgage interest and other homeownership costs.

the wholesale price index edged forward throughout the second quarter





The role of inventories in the overall GNP increase was a reversal of the first quarter situation in which the expansion of consumer spending went far beyond sales expectations. In terms of final sales (GNP excluding inventory change), the second quarter showed an increase of \$12.5 billion, or about half as much as the gain in the first quarter.

2/ Preliminary.



Major GNP components, change  
from previous quarter

Item	1968	
	1st	2nd
	qtr.	qtr. 1/
	- Bil. dol. -	
Total change in GNP.....	20.2	20.4
Consumption.....	17.2	8.2
Private nonresi- dential fixed investment.....	3.6	-.7
Housing.....	.6	.4
Inventory 2/.....	-6.2	7.9
Net exports.....	-1.9	-.6
Government.....	7.0	5.1

1/ Preliminary. 2/ See footnote 1/,  
text table previous page.

Residential construction continued to advance in the second quarter with a slight gain. This increase occurred despite extremely high mortgage interest rates. Both housing starts and permits, advance indicators, have been declining in this period. This suggests that such construction outlays may decline in the coming quarter. Rising prices due to increased construction costs and rising demand may continue to keep residential construction expenditures climbing despite a downturn in volume. A number of measures are being undertaken to relieve the tight mortgage credit situation facing the housing industry. The amount of reserve required for the savings and loan building associations, for example, has been lowered. Many State Governments have changed their interest rate laws to accommodate builders and home buyers.

An extra \$600 million held by savings and loan associations will probably be freed for mortgage lending because of the reserve requirements change adopted by the Federal Home Loan Bank Board.

Table 4.--Change from previous quarter in selected measures  
of personal income and spending 1966-III to 1968-II

(Billions of dollars, seasonally adjusted annual rates)

Item	1966		1967				1968	
	III	IV	I	II	III	IV	I	II 1/
Total personal income .....	11.8	12.4	10.3	6.8	12.1	11.5	17.5	15.4
Wages and salaries .....	9.6	7.4	6.1	4.3	8.7	10.1	11.9	9.3
Manufacturing .....	2.7	2.5	.3	-.2	2.3	2.5	4.1	2.6
Nonmanufacturing .....	4.1	2.7	4.0	2.7	4.2	4.2	5.6	4.5
Government .....	2.9	2.1	1.9	1.6	2.2	3.5	2.2	2.2
Transfer payments .....	2.0	3.3	3.2	.9	.7	.8	2.8	2.6
Personal tax payments .....	2.1	2.4	1.3	-.4	3.5	2.0	2.7	3.5
Disposable personal income ...	9.9	10.0	8.8	7.3	8.5	9.6	14.8	11.9
Personal consumption								
expenditures .....	8.2	4.4	7.2	9.4	5.2	6.7	17.2	8.2
Durable.....	2.8	.1	-1.3	3.6	-.3	1.1	4.8	1.9
Nondurable.....	2.0	1.0	3.6	2.4	1.1	2.0	8.1	1.7
Services.....	3.3	3.3	4.9	3.4	4.3	3.7	4.3	4.5
Personal savings .....	1.5	5.2	1.6	-2.7	3.5	2.9	-2.6	3.6

1/ Preliminary.

U.S. Department of Commerce.



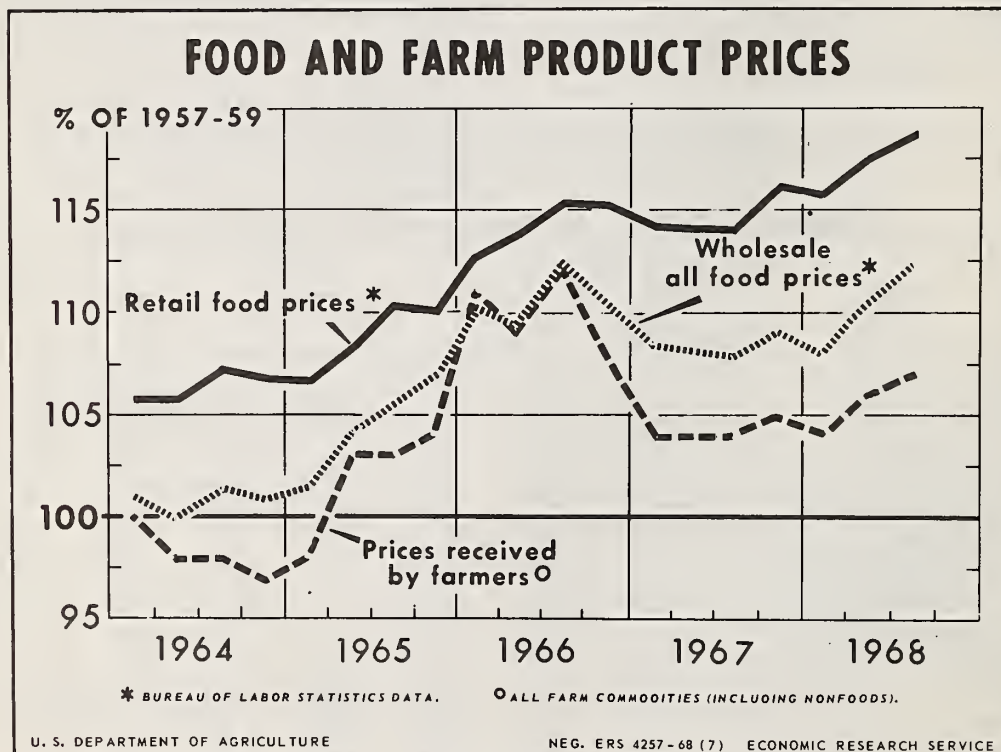
Expenditures for services provided over half the gain in personal consumer spending. This, in fact, was the only major category of consumer spending that equaled its first quarter gain. Automobile sales provided a source of strength for durables. The gain in expenditures for nondurables, however, was very small by recent comparisons, with sizable gains in food and beverages offsetting declines in gasoline and oil and other categories.

Consumers spent substantially more for food in second quarter 1968 than they did last year. Retail food expenditures in April-June totaled 7% above those of a year earlier. <sup>2/</sup> The rise in food spending from the first to second quarter was about in line with the previous quarter's rapid advance. Current prospects indicate considerably slower consumer income gains in the second half of 1968. As a result, only a small increase in food expenditures is expected for the rest of the year.

Retail food prices rose slightly more than 1% from the first to second quarter; compared with a year earlier they were nearly 4% higher. Most of the increase this year has been due to higher farm prices for beef, fruit, vegetables, and dairy products. For the rest of the year, retail food price increases are expected to taper off. Although some gains may occur, they are expected to be small compared with those in recent months.

Food supplies in 1968 are currently estimated slightly larger than those of last year. Thus, per capita food consumption appears about the same to fractionally lower. For the year as a whole, per capita declines are likely for veal, lamb, eggs, turkey, citrus fruit, and some dairy products. On the other hand, increases are expected for beef, pork, potatoes, vegetables, and noncitrus fruit.

<sup>2/</sup> Excluding alcoholic beverages.



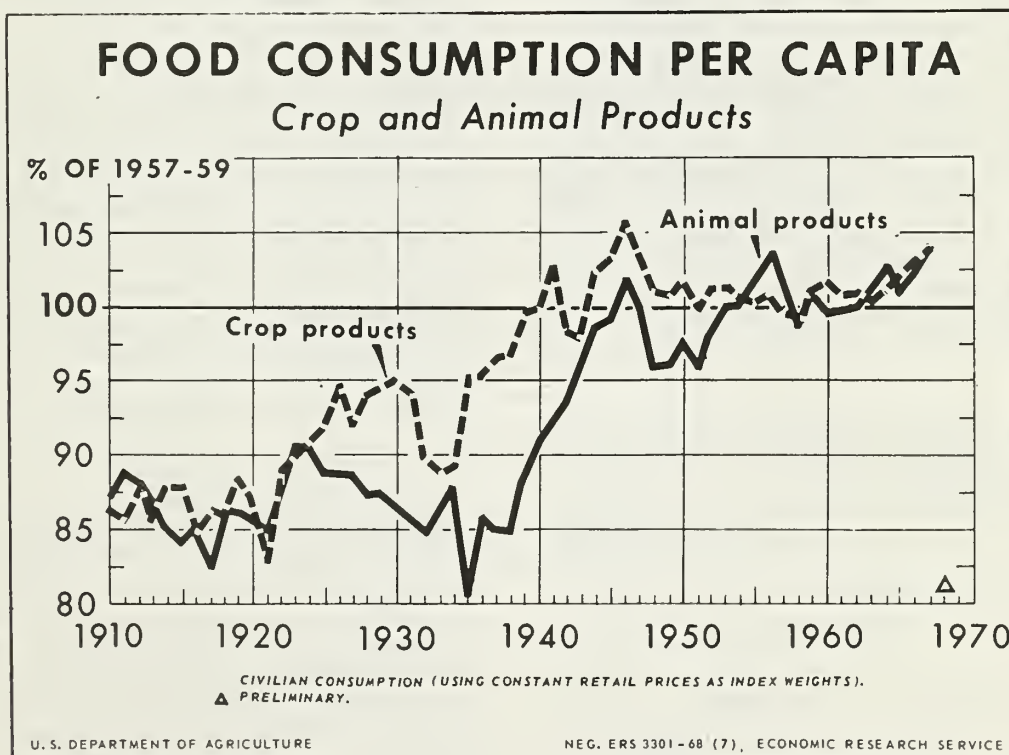


Steady employment, rising wages, and increased social security payments produced a \$12 billion rise in disposable personal income (DPI). Wages and salaries accounted for most of the gain as employment and hourly earnings rose, while weekly hours held at 40.9. Transfer payments rose \$2.6 billion as social security benefits continued to rise. State unemployment insurance benefits significantly decreased. Although not as large as the record \$14.8 billion in the first quarter, the second quarter advance in DPI was well over recent quarters.

Total employment in April-June rose by a considerable amount but less than in the first quarter. All major industry divisions except construction and mining showed seasonally adjusted employment pickups in June. Gains took place in manufacturing, transportation,

and public utilities, services, and State and local Governments. Uncertainty about the availability of mortgage money and weakness in housing starts contributed to the decline in construction employment.

Employment rose in June but the labor force rose by a larger amount. Unemployment increased by about 200,000 persons in June from a seasonally adjusted rate of 2.8 million in May. The unemployment was distributed unevenly as teenage unemployment increased from 12.6% to 13.6% and the nonwhite rate rose from 6.4% to 7.2%. For adult workers and for full-time workers, unemployment showed little change over the month. The jobless rate for all workers aged 25 and over held steady at 2.2% in both May and June. For married men, the unemployment rate was 1.7% in June, up slightly over the month but down from 1.9% a year ago.



The personal saving rate continues to be unusually high. The consumer moderated his spending in the second quarter and saved more of his increased income than he did in the first quarter. The rate of personal saving of disposal personal income rose from 7% to over  $7\frac{1}{2}\%$ .

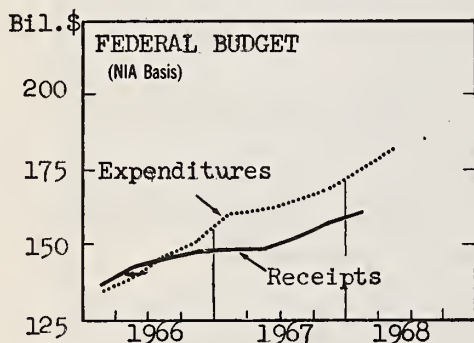
A high saving rate forms a possible reservoir of purchasing power which could temper the effects of the recent personal income tax surcharge in the coming quarter. Moreover, businessmen may make less investment expenditures and cut back production because they feel the high saving rate means a slower rate of consumption.

Federal purchases of goods and services rose by almost \$3 billion to \$100 billion. This represents a slowdown from the \$3.6 billion gain of the first quarter. National defense expenditures accounted for most of this gain, while nondefense expenditures remained fairly steady. The rise in Federal expenditures in the first quarter was offset by a further rise in Federal receipts. Larger receipts were due to the record high personal and corporate incomes in that period as well as the new corporate tax rate retroactive to January 1, 1968. This led to a slight decline in the Federal deficit in national account terms. However, the second quarter rise in expenditures was not moderated by a similar gain in receipts.

As a result of rapid advances in prices, interest rates, and Federal expenditures, the Congress passed legislation in June reducing proposed Government expenditures by \$6 billion in fiscal year 1969. Possibly \$4 billion of this cut will be reflected in national income account expenditures. This legislation also put a 10% surcharge on corporate and personal income taxes. Increases in Government receipts and a leveling off of Federal expenditures are expected to sharply reduce the Federal deficit in the coming year.

The main effect of reduced Government expenditures will be to temper demand pressures for scarce resources in a rather fully employed economy. How and to what degree these reductions will affect various components of the economy will depend on what programs are restricted.

An easing of credit early in the third quarter followed the June legislation. Short-term interest rates began a marked turn-downward. U.S. Treasury bill and commercial paper rates also lowered. In recognition of this change, on August 15, the Federal Reserve Board approved requests from the Minneapolis and Richmond Regional Banks to reduce the discount rate to  $5\frac{1}{4}\%$  from the  $5\frac{1}{2}\%$  established in April. The reduction was described by the Board as a technical step to align the discount rate with the change in these money market conditions. Past history indicates that normally the Federal Reserve System's other district banks will also request this reduction.



Further tightening in monetary measures had been made in the second quarter to dampen demand expansion. The Federal Reserve discount rate, which had been raised in March, was raised further in April to  $5\frac{1}{2}\%$ . Member bank reserve requirements on demand deposits were also increased, and Federal Reserve open market operations were directed toward limiting bank credit expansion. Largely as a result of these and other

Table 5.--Federal receipts and expenditures in the  
national income accounts, semi-annually 1966-67  
and quarterly 1968 1/

Description	1966		1967		1968	
	First	Second	First	Second	First	Second
	half	half	half	half	quarter	quarter <u>2/</u>
RECEIPTS, NATIONAL INCOME BASIS						
Personal tax and nontax.....	59.4	63.9	65.6	69.0	72.0	74.9
Corporate profits tax accruals....	32.3	32.5	30.4	31.5	37.0	37.9
Indirect business tax and non- tax accruals.....	15.6	16.0	16.0	16.4	17.0	17.5
Contributions for social insurance.....	32.2	34.2	36.2	37.4	40.5	41.2
Total receipts, national income basis <u>3/</u>	139.4	146.6	148.2	154.3	166.6	171.5
EXPENDITURES, NATIONAL INCOME BASIS						
Purchases of goods and services.....	74.0	80.7	88.7	92.4	97.1	100.0
Transfer payments.....	34.4	37.0	41.8	42.8	45.1	47.4
Grants-in-aid to State and local Governments.....	13.8	15.0	14.8	16.4	17.7	18.3
Net interest paid.....	9.2	9.8	10.0	10.4	11.3	11.8
Subsidies less current surplus of Government enterprises.....	5.2	5.7	5.0	4.7	3.9	4.1
Total expenditures, national income basis <u>3/</u>	136.6	148.2	160.4	166.8	175.1	181.7
SURPLUS (+) OR DEFICIT (-) NATIONAL INCOME BASIS	2.8	-1.6	-12.2	-12.6	-8.6	-10.2

1/ Calendar years in billions of dollars, seasonally adjusted annual rates.

2/ Preliminary.

3/ Totals may not add due to rounding.

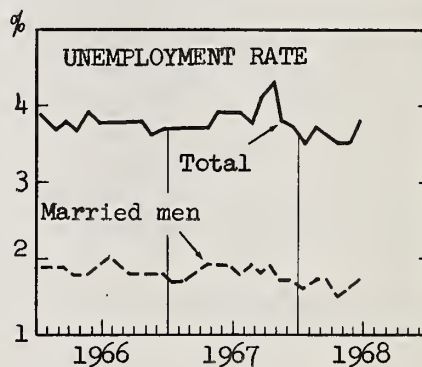
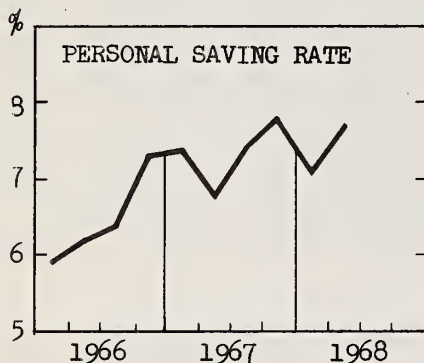
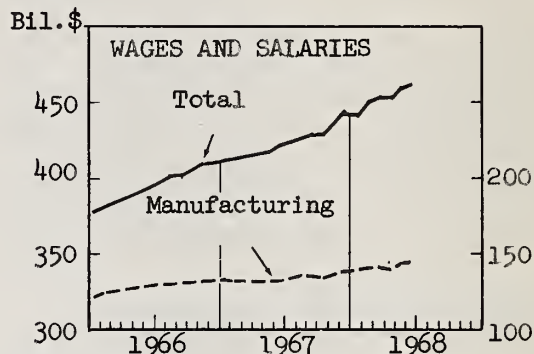
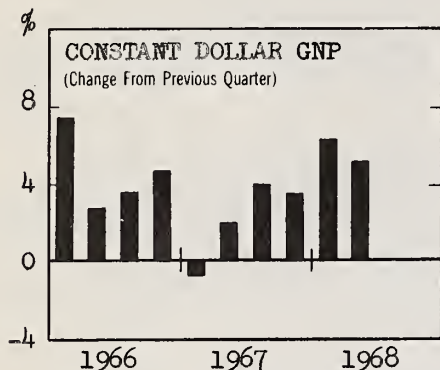
U.S. Department of Commerce.



restrictive measures, short- and long-term interest rates rose in the April-June period.

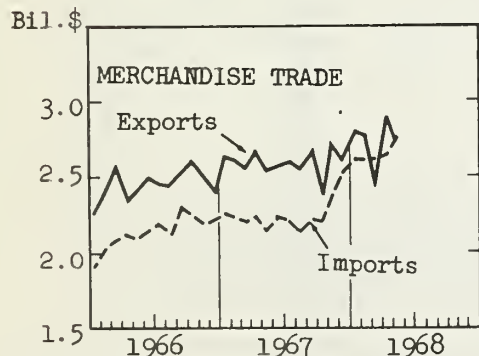
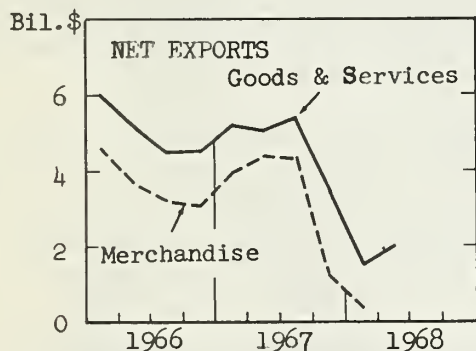
Money stock continued to grow during the first half of 1968 at about the  $6\frac{1}{2}\%$  annual rate of last year. This reflects the increased need associated with rapid economic expansion that has taken place in the first two quarters.

State and local Government purchases increased \$2.2 billion in the second quarter, continuing their long-term trend. In the first quarter, a large increase in construction had resulted in an unusual  $\$3\frac{1}{2}$  billion jump. The ability of the State Governments to secure revenue from a slowing economy and possible cuts in Federal grants may limit expenditure increases in the coming year.



## FOREIGN TRADE

Net exports (exports minus imports) of goods and services remained very low in the second quarter of 1968 following sharp declines in the previous two quarters. Merchandise trade deficits occurred in May and June on a seasonally adjusted basis. What was once the "shining knight" of the balance of payments situation, the U.S. trade surplus has been undependable. The 9-month copper strike, the dock strike, and precautionary steel imports against a possible steel strike this August were immediate causes for the reduction. However, the U.S. merchandise trade balance has been narrowing in every year since 1964. In 1964, the surplus totaled \$6.7 billion; by 1967 it had fallen to \$3.5 billion.



The strong advances in the U.S. economy contributed importantly to the rise in imports in recent quarters. The

growth in incomes in our economy encourages the purchases of foreign goods. At the same time, rising domestic prices make our products less attractive to customers in other countries. The rise in science and technology overseas, of course, has been a long-range factor lessening our postwar comparative advantage in many areas.

The U.S. agricultural trade balance (exports-imports) deteriorated sharply from a year earlier during April-June 1968. <sup>3/</sup> Although still favorable, the second quarter trade surplus was less than half the size of that during April-June 1967. Both smaller agricultural exports and sharply higher imports contributed to the decline.

U.S. agricultural trade  
balance, April-June 1967 and 1968

Item	1967	1968 1/	Percent- age change 1968/67
	Mil. dol.	Mil. dol.	Pct.
Exports.....	1,598	1,483	-7
Imports.....	1,065	1,261	18
Trade balance...	533	222	-58

<sup>1/</sup> Preliminary.

The value of U.S. agricultural exports dipped 7% below a year earlier

<sup>3/</sup> The value of exports is based on the selling price and includes inland freight costs, insurance, and others charges to port of exportations. The value of imports is generally defined as the market value in the foreign country, and excludes import duties, ocean freight, and marine insurance.

during April-June 1968 (table 6 ). Lower prices for several major commodities and smaller overall export volume contributed to the decline. Reduced export values for feed grains, soybeans, tobacco, wheat, and fruit more than offset increases in dairy products, vegetables, cotton, and rice.

Feed grain exports showed the sharpest decline in value, dropping more than a fifth from a year earlier. Increased value of corn exports was more than offset by declines in value of other feed grains.

Soybean exports fell in value more than a tenth from a year earlier in the April-June quarter. Both lower prices and smaller volume were responsible for the drop. In Western Europe, competition has been keen this year from Russian sunflower seed oil. However, demand for U.S. soybean meal has been high, resulting in increased exports of oil cake and meal.

The value of tobacco exports was off a tenth during the April-June quarter from a year earlier. U.S. tobacco shipments to West Germany were substantially lower, explaining much of the overall decline.

Cotton exports rose in value during April-June, as they did in the first quarter. Large export quantities are responsible for the recent increase.

Rice exports rose from a year earlier in April-June. The boost was due to a larger volume and higher prices. Although rice production is expanding in a number of producing countries, demand apparently has grown more rapidly.

U.S. agricultural imports spurted during April-June 1968. Imports rose 6% above those in the January-March quarter, and were nearly a fifth larger than in the same period a year earlier. Part of the first to second quarter rise was due to the settlement of the long-

Table 6.--U.S. agricultural exports, value of major commodities, April-June 1967 and 1968

Commodity	April-June		Percentage change 2/ Percent
	1967	1968 1/	
	<u>Mil. dol.</u>	<u>Mil. dol.</u>	
Cotton, excluding linters .....	119	125	5
Dairy products .....	43	45	5
Feed grains, excluding products.....	240	189	-21
Fruits and preparations .....	80	66	-18
Soybeans .....	198	171	-14
Tobacco, unmanufactured .....	121	108	-11
Vegetables and preparations .....	46	49	7
Wheat and flour .....	274	268	-2
Rice .....	87	104	20
Other .....	390	358	-8
Total exports 3/	1,598	1,483	-7

1/ Preliminary.

2/ Change computed from unrounded data.

3/ Totals may not add due to rounding.



shoremen's strike in March. The value of supplementary agricultural products totaled higher than a year earlier due to increased meat, sugar, fruit, and vegetable imports. Complementary items such as carpet wool, rubber, coffee and cocoa also ran higher.

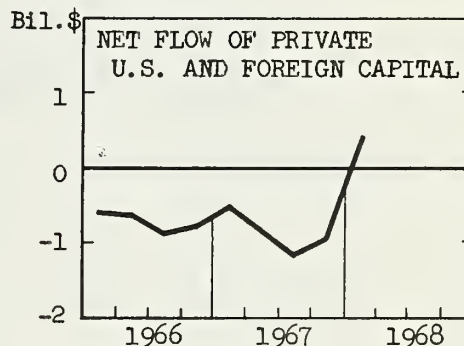
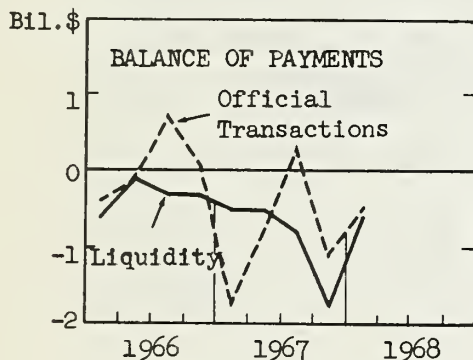
The Nation's balance of payments deficit <sup>4/</sup> dropped in the first 3 months of this year. Preliminary data indicate that the deficit for the second quarter was lower still despite the low net export balance. Special security sales to Canada and Germany as well as increased foreign purchases of U.S. investments are reflected in this shrinkage. This reverses the situation that existed in the fourth quarter of 1967 when this deficit rose considerably.

This brightening of the balance of payment's picture comes at a time when a deterioration might affect the two-tier gold price arrangement, implementation of

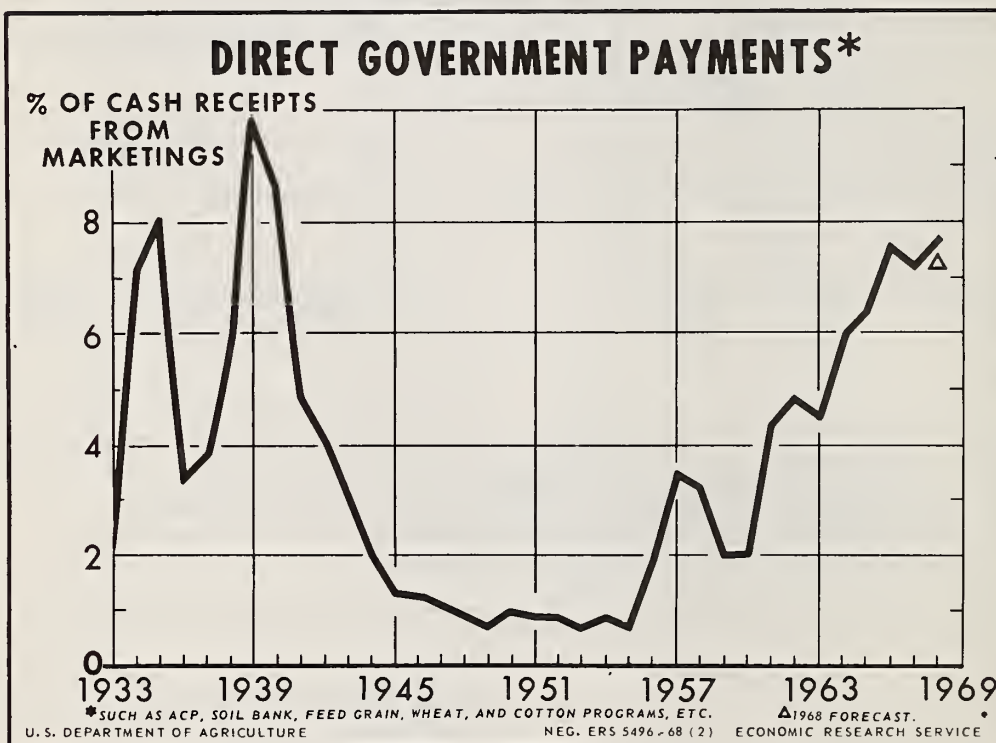
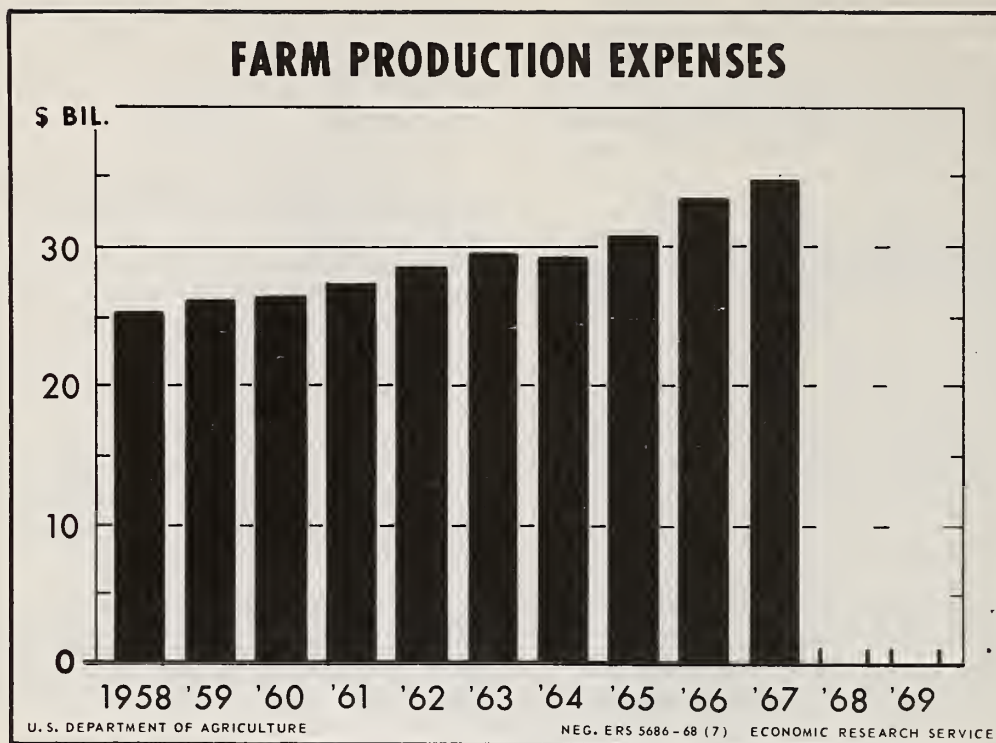
the Special Drawing Rights arrangement, the British and French attempts to improve their balances, and consideration of trade protection measures in a number of countries.

The U.S. gold stock increased slightly in June. This was the first gain in 8 consecutive months and the largest single increase in 4 years. The increase was the direct result of the French effort to defend the franc, weakened by the recent French disorders. It also reflects, in part, the decline of gold speculation in this past quarter under the new two-tier system of gold prices set up by leading monetary nations in March 1968. This latter action was designed to insulate monetary gold from the commercial gold market.

<sup>4/</sup> On the liquidity basis of accounting which measures transactions by foreign private citizens as well as Governments.



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